

BRIEFING MEMO
Calais Community Hospital
Transfer of Certain Assets and Operations of Calais Regional Hospital to
Calais Community Hospital

DATE: January 11, 2022

TO: Jeanne M. Lambrew, Commissioner, DHHS

THROUGH: Bill Montejo, Director, Division of Licensing and Certification

FROM: Larry Carbonneau, Manager, HealthCare Compliance and Operations
Richard Lawrence, Senior Health Care Financial Analyst

SUBJECT: Certificate of Need for Calais Community Hospital

ISSUE ACTIVATED BY: The referenced proposal requires Certificate of Need (CON) approval as defined in "The Maine Certificate of Need Act of 2002," 22 M.R.S.A. §326 et seq., as amended.

REGISTERED AFFECTED PARTIES: None

I. BACKGROUND:

Calais Regional Hospital was a Maine non-profit, tax-exempt corporation with its principal location at 24 Hospital Lane, Calais, Maine. It was incorporated in 1917 and had the mission "to provide and plan patient care, educational and restorative services that meet our customers' expectations, commensurate with available resources." Calais Regional Hospital operated a 25-bed general medical and surgical hospital in Calais, with approximately 259 employees and approximately 216 full-time equivalent positions. Calais Regional Hospital, designated as a critical access hospital, served patients in eastern Washington County, Maine, and also provided services to some Canadian patients.

For many years, Calais Regional Hospital experienced operational losses. Faced with cash shortfalls that required it to reorganize its financial affairs, Calais Regional Hospital filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court on September 17, 2019. Calais Regional Hospital's operational losses continued during the Bankruptcy Proceedings. Between the Petition Date and October 31, 2020, Calais Regional Hospital reported that it earned \$25,015,720 of "Net Patient Revenue" from its hospital operations, while incurring total operating expenses of \$29,037,580, for losses of at least \$4,021,860.

Calais Community Hospital (CCH) is a non-profit, tax-exempt corporation formed under the laws of the State of Maine and is an affiliate of Down East Community Hospital (DECH). DECH formed CCH for the purpose of undertaking the Transaction, which Transaction was approved by the Bankruptcy Court for the District of Maine. The goal of the Transaction was to

preserve the Calais Regional Hospital resources and delivery of hospital-based health care services in the Calais region, through this new licensed hospital, in a financially viable manner.

Due to the necessity of continuing hospital services in the Calais, Maine area, two Emergency CON approvals were granted, resulting in Calais Community Hospital assuming ownership and operational control of all hospital assets and operations formerly performed by Calais Regional Hospital.

II. PROJECT DESCRIPTION:

The purchase by CCH of the Acquired Assets, facilitated by the resources and manpower supplied by DECH, have allowed the continuation of the delivery of hospital-based health care services in the Calais region. The opportunity and benefits are immeasurable, including the continuation of available resources and care in the community, and a governance structure that will include input by members of the Calais region, by having seats on the Board of Trustees of CCH. Specifically, the Board of Trustees will essentially be a mirror image of the DECH Board of Trustees, with the addition of up to two representatives from the Calais region (who will be appointed at the time of the resignation of existing members of the DECH Board of Trustees). The Chief Executive Officer and the Chief Operating Officer will be the same for both organizations. These local factors will be balanced by guidance and stability from CCH and its parent DECH. DECH has proven its ability to sustain economic viability while delivering quality care to its patients, and the DECH model of operations will be applied to CCH going forward. Further, the DECH/CCH business plan involves the preservation of services while creating efficiencies through combining aspects of administration of the organizations.

The plan for the delivery of health care services is to continue (as initiated during the management phase of this Transaction) to stabilize operations, increase revenues, and improve access to and delivery of quality health care. The plan includes streamlining management, as noted, while maintaining services and finding contractual approaches to reducing overhead costs. An example of cost-savings is the MRI lease for Calais Regional Hospital, which has already been replaced and combined with the DECH MRI lease. The available MRI services and quality standards remain virtually the same.

III. HIGHLIGHTS:

Letter of Intent dated:	October 4, 2021
Technical Assistance Meeting held:	October 28, 2021
CON application filed:	November 3, 2021
CON certified as complete:	November 8, 2021
Public Information Meeting Held	Waived
Public Hearing held:	N/A
Preliminary Analysis released:	December 15, 2021
Close of Public Record	January 10, 2021

IV. PUBLIC COMMENTS RECEIVED IN RESPONSE TO THE PRELIMINARY ANALYSIS

No public comments were received following the release of the preliminary analysis.

V. CERTIFICATE OF NEED UNIT ANALYSIS

a) Fit, Willing and Able

Subsequent to the September 2019 bankruptcy, CRH was purchased by CCH whose sole corporate member is Down East Community Hospital (DECH). CCH will continue to provide the majority of the services that were originally provided by CRH (with the exception of home health) and will collaborate extensively with DECH to improve access to hospital services in the Calais, Maine area. As stated by the applicant, CCH and DECH share top management positions and Board memberships which will further unify efforts to improve healthcare services in the Downeast region.

According to the CCH website (calaishospital.org):

“CCH is a 25-bed critical access hospital for acute care and swing bed patients with a 24-hour physician staffed emergency department. It continues to serve Northeastern Washington County with an approximate population of 14,000 from Topsfield to the North, Wesley to the West and Eastport to the south. CCH is the largest employer in Calais, employing more than 200 people.”

“Services offered at the Hospital include clinics in cardiology; prosthetics-orthotics; and blood pressure. Out-patient services include laboratory procedures, physical therapy, occupational therapy, speech therapy, osteoporosis management and prevention, radiology, including fixed unit CT scan, mobile MRI, bone density testing, ultrasound exams and digital mammography, infusion services, day surgery, pulmonary rehabilitation, nutritional counseling and respiratory care procedures. A multi-specialty courtesy staff of physicians and a variety of allied medical specialists compliment the members of the Hospital’s active medical staff.”

Survey Results

CONU examined the most recent survey results for DECH. CCH has not had surveys since they opened. The results of the most recent surveys are as follows:

Federal Survey

A Federal recertification revisit survey occurred at DECH on December 17, 2018. DECH is in substantial compliance with 42 Code of Federal Regulations Part 485, Conditions of Participation for Critical Access Hospitals.

Complaint Survey

A Federal Complaint Survey (#36326) was conducted at DECH on 5/4/2021 through 5/6/2021. A COVID-19 FIC Survey and a federal complaint investigations were conducted at Down East Community Hospital, a Critical Access Hospital, to evaluate compliance with 42 CFR, Part 485, Condition of Participation: Infection Prevention & Antibiotic Stewardship Programs (§485.640). The survey determined the hospital was in substantial compliance with 42 CFR, Part 485.640.

CCH intends to introduce several quality improvement measures to enhance care delivery and improve operating results going forward.

Deeming of Standard

As provided for at 22 M.R.S. § 335 (7)(A), if the applicant is a provider of health care services that are substantially similar to those services being reviewed and is licensed in the State, the requirements of this paragraph are deemed to have been met if the services previously provided in the State by the applicant are consistent with applicable licensing and certification standards.

As stated by the applicant, CCH Hospital is a new entity, however its predecessor, CRH and its current owner DECH have been licensed to provide a wide array of hospital services in the State of Maine for many years. The services provided by the applicant are consistent with applicable licensing and certification standards. Due to the lack of survey history for CCH the following condition applies:

Condition: The applicant is to report improvements in quality and outcome measures for services provided by CCH on an annual basis, within 90 days of its fiscal year end, beginning with the time period when the CON was approved until a full three years have elapsed since the date of the CON approval.

b) Economic Feasibility

In order to assess the financial stability of the applicant, the CONU used financial ratios to measure profitability, liquidity, capital structure and asset efficiency. CONU examined both DECH and CRH's (predecessor organization of CCH) financial results. Financial ratios were obtained from the Maine Health Data Organization Hospital Financial Information Part 1 and Maine Health Data Organization Hospital Financial Data Definitions available on MHDO's website <http://mhdo.maine.gov/imhdo/>. Additional information was obtained from the 2019 Almanac of Hospital Financial and Operating Indicators.

CONU Summary of Financial Ratios: Below is a chart summarizing the percentage of time CRH and DECH meet or exceeds Maine or National medians between 2015 and 2019.

CRH	RATIO	MAINE	NATIONAL
Profitability	Operating Margin	0%	NA
Profitability	Net Operating Income	0%	NA
Profitability	Return on Equity	NA	NA
Liquidity	Current Ratio	0%	0%
Liquidity	Days Cash on Hand	20%	0%
Liquidity	Avg. Payment Period	0%	0%
Capital Structure	Debt Service Coverage	0%	0%
Capital Structure	Cash Flow to Total Debt	0%	0%
Capital Structure	Fixed Asset Financing	0%	0%
Asset Efficiency	Total Asset Turnover	80%	100%
Asset Efficiency	Fixed Asset Turnover	0%	NA

NA-Not available

DECH	RATIO	MAINE	NATIONAL
Profitability	Operating Margin	60%	N/A
Profitability	Net Operating Income	40%	N/A
Profitability	Return on Equity	60%	67%
Liquidity	Current Ratio	0%	0%
Liquidity	Days Cash on Hand	40%	0%
Liquidity	Avg. Payment Period	100%	33%
Capital Structure	Debt Service Coverage	20%	33%
Capital Structure	Cash Flow to Total Debt	80%	0%
Capital Structure	Fixed Asset Financing	80%	100%
Asset Efficiency	Total Asset Turnover	80%	100%
Asset Efficiency	Fixed Asset Turnover	80%	NA

NA-Not available

CRH met or exceeded Maine performance averages in 1 out of 11 measures and exceeded National averages in 1 out of 11 measures. DECH meets or exceeds Maine performance measures in 7 out of 11 measures and exceeds National averages in 3 out of 11 measures.

As noted above, the summary of financial ratios demonstrates that CRH had several years of poor financial performance. A review of the December 31, 2020 and 2019 audited financial statements (on file at CONU), prepared by BerryDunn, determined that there was a substantial doubt about the hospital's ability to continue as a going concern. BerryDunn noted that CRH experienced significant operating losses for several years and further stated:

“The uncertainties inherent in the bankruptcy process and the Hospitals recurring losses and negative cash flows from operations raise substantial doubt about the Hospital’s ability to continue as a going concern”

On September 17, 2019, CRH filed a petition for relief under Chapter 11 of the United States Bankruptcy Code. On February 19, 2021, DECH filed a motion with the Court to allow DECH to purchase substantially all of the assets of the Hospital. A formal plan was filed and approved by the Court on March 24, 2021. CRH was acquired by CCH, a wholly owned subsidiary of DECH on July 1, 2021. Closing of the transaction was subject to CON approval from the State of Maine, Department of Health and Human Services.

As stated by the applicant the purchase price of the CRH assets was the assumption of a \$2,000,000 obligation currently owed to the United States Department of Agriculture (USDA) and the costs relating to certain leases and contracts. The interest on the obligation is 1% for year one and 2.125% from year two onward. The note will be amortized over thirty years. The USDA also provided \$1.5 million in initial start-up funding to be added to the note balance. The asset purchase excludes accounts receivable and amounts due from Medicare and MaineCare. The amounts subsequently collected are to be advanced to DECH, subject to a cap of \$2.2 million, and also added to the note, capping the total note at \$5.7 million. In April 2021, CCH received a Paycheck Protection Program (PPP) loan of \$2,785,878 as part of the CARES Act.

In addition to the favorable loan terms, management plans to stabilize operations, enhance revenues and improve access to, and delivery of quality health care. As stated previously management has been streamlined with DECH and CCH sharing top management and Board of Trustees positions. Further efficiencies will be achieved by combining certain administrative functions between CCH and DECH. Overhead costs will be further reduced by renegotiating leases and contracts.

CCH submitted a Projected Statement of Profit & Loss for the 6 months ending in December 2021 through December 31, 2024. The Final Gain (Loss) projections are as follows:

Calais Community Hospital	2021	2022	2023	2024
Final Gain (Loss)	\$ (531,667.00)	\$ 35,656.00	\$ 76,968.00	\$ 140,951.00

After an initial loss, CCH is expected to achieve profitability by December 31, 2022.

CCH has restructured debt and implemented measures to enhance revenues and reduce costs while maintaining needed healthcare services, however, there are significant long-term financial challenges involved with operating a rural hospital. These challenges include low patient volume, heavy reliance on MaineCare and Medicare for reimbursement, geographic isolation, aging infrastructure, staffing recruiting and retention issues and the need to invest in infrastructure and technology. Long-term viability is a significant concern.

In response to these concerns CCH submitted the following statement:

Calais Community Hospital ("CCH") can say that it, and its parent company Down East Community Hospital, recognized and acknowledged these types of listed challenges from the outset. Therefore, the early stages of the plans to purchase the Calais Regional Hospital ("CRH") assets through the bankruptcy proceeding, and to preserve the delivery of hospital services in that region, included evaluation and analysis of how to repeat the mistakes and failings that brought CRH into bankruptcy. Most important, CCH is using Down East Community Hospital as a template and guidepost for all aspects of governance and operations. CCH is relying upon Down East Community Hospital's success and input (through shared Boards and shared Executive Directors and Financial Officers) with respect to issues such as recruiting and retention of medical staff, re-negotiation of commercial insurance contracts, and implementing contracts with vendors at competitive, reasonable prices. With respect to contracting, one example is the restructuring of the lease arrangement for the Magnetic Resonance Imaging equipment at significant cost savings. This has already been accomplished. Moving forward, and looking to the future, CCH plans to maintain those systems and the fundamental array of services that help make basic hospital services available to people in that region, to fill a need. Where efficiencies can be created with Down East Community, those will be pursued. Where improved contracting arrangements can be accomplished, those will be implemented.

Changing Laws and Regulations

Certificate of Need Unit staff is not aware of any imminent or proposed changes in laws and regulations that would impact the project.

Deeming of Standard

As provided for at 22 M.R.S. § 335 (7)(B), if the applicant is a provider of health care services that are substantially similar to those services being reviewed and is licensed in the State, the applicant is deemed to have fulfilled the requirements of this standard if the services provided in the State by the applicant during the most recent 3-year period are of similar size and scope and are consistent with the applicable licensing and certification standards.

CCH is a new entity, however its predecessor, CRH and its current owner DECH have provided a wide array of hospital services similar in size and scope to current operations. in the State of Maine for many years. This project does not seek to expand or discontinue current services but seeks to achieve financial and operating efficiencies in order to maintain necessary health care services in CCH's service area. The deeming standard has been met. Due to the numerous financial challenges facing CCH, CONU is including the following condition:

Condition: In order to monitor CCH's financial position, the applicant is to promptly provide a copy of CCH's annual audited financial statements that clearly identify CCH's financial

performance (balance sheet, income statement, utilization data), when such audited financial statements are issued, for the time period(s) beginning the date the CON is approved until the expiration of three years thereafter. In addition, the applicant is to report the addition of any new health services in accordance with MRS Title 22, Chapter 103-A §329 (4) or reductions of hospital service lines, (as reference on the Division of Licensing and Certification Hospital Application for Initial, Renewal, and Licensing Changes) provided by CCH during this time period.

c) Public Need

This project allows CCH to continue the necessary services provided by CRH. This project does not propose or forecast significant changes in service volume. The ability to continue providing needed services in Calais, Maine is critical to retain access to health care and improve health care outcomes. To determine public need, CONU analyzed demographic and service use trends in CCH's primary service area (Washington County, Maine). CONU utilized the Older Adults with Physical Disabilities: Population and Service Use Trends in Maine, 2012 Edition, prepared by the Muskie School of Public Service and the U.S. Census Bureau's website located at <http://census.gov/quickfacts/>.

Washington County located in eastern Maine and has an area of 3,258 square miles. The population estimate as of July 1, 2019 is 31,379. Approximately 24.8% of the population is 65 or older. To put this in perspective the 65 or older population of the United States is 16%. The 65+ population is expected to increase. This population is a heavy consumer of hospital services. Maine's 65 and above age group continues to grow at a rate faster than New England and the rest of the nation.

In order to maintain existing hospital services, financial and operating efficiencies must be achieved through construction of a new hospital. Maintaining necessary hospital services would continue to substantially address specific health problems associated with an aging population which increasingly requires more intensive care. In 2019, Maine's four largest healthcare system, NLH, Central Maine Health Care, MaineGeneral Health and MaineHealth in concert with the Maine Center for Disease Control and Prevention partnered to research and publish a shared Community Health Needs Assessment. CRH used this data to identify health priorities and initiatives to address these unmet needs within Washington County. As stated previously by the applicant these needs are:

- 1). Mental Health
- 2). Substance Abuse
- 3.) Access to Care
- 4.) Older Adult Health/Healthy Aging
- 5.) Social Determinants of Health

These needs are in alignment with both CCH and DECH, also located in Washington County. Strong connections with another hospital in the service area will strengthen these initiatives and enhance the health status indicators of the population to be served.

The services affected by the project will be accessible to all residents of the area proposed to be served. CCH provides important access to care for many remote communities in Washington County. In order to maintain access to care close to home, improve the health and well-being of the population, and maintain volume and specialty care in the service area this project is necessary.

The project will provide demonstrable improvements in the quality and outcome measures for patients that require hospital services. CCH's ongoing participation in quality improvement programs, described in a previous section of this analysis, along with collaboration with DECH will encourage a strong focus on continuous improvement and care integration.

d) Orderly and Economic Development

As stated by the applicant, the fundamental reason for this proposed project is the preservation of hospital services in rural Washington County, Maine. Subsequent to the CRH bankruptcy and formation of CCH, management has taken numerous actions to stabilize hospital operations and position CCH for long-term viability.

This project is not anticipated to substantially increase the utilization of State Funds. Based on historical and projected data there should be no increased utilization due to this project and little change in the facilities patient mix. This project is expected to allow CCH to provide necessary services in the Calais area. No increased costs or service utilization is expected from maintaining the status quo in the area. According to the 2019 American Hospital Association Rural Report, rural hospitals provide local, timely access to care which saves lives and reduces the expense and inconvenience of traveling to distant facilities. Rural hospitals serve as economic anchors in their communities providing jobs and improving the local economy through the purchase of goods and services.

The applicant did not consider alternatives to this project. CRH was not a viable entity and doing nothing would have ultimately resulted in the closure of CRH and a lack of necessary services in the area. Given that this project continues an existing service and utilizes an existing physical plant it is unlikely that a more effective, more accessible, or less costly alternative for providing needed hospital services is available.

e) Outcomes and Community Impact

CCH has a commitment to continuous improvement and the provision of high- quality care. CCH has undertaken a revitalization of its' quality department and outlined a number of new and improved initiatives including a tracking system to monitor incidents or adverse outcomes,

formation of a Quality Indicators Team, instituted a Peer Review Program, adopted tools for survey-based performance measurement, analysis and tracking and is developing a Patient Safety Program. CCH has a culture of continuous improvement to existing programs and may add additional health care services to the region. There are no plans to discontinue any current service lines. Community health and high-quality clinical results in Washington County will be enhanced by the close collaboration of CCH and DECH. The quality of care delivered by existing service providers will not be negatively impacted by this transaction because there will be no change in the range or level of services currently provided in the region.

f) Service Utilization

This project maintains existing hospital services and new service lines are not being added. Any growth in service levels will be due to demographic factors and not inappropriate increases in service utilization. CCH and DECH can collaborate to ensure continuity of care and participate in provider efforts to improve health outcomes and reduce health care costs through a focus on eliminating duplicative or unnecessary utilization in the service area

VI. CONCLUSION

For all the reasons set forth in the Preliminary Analysis and in the record, the CONU concluded that the review standards have been satisfied.

VII. RECOMMENDATION

The CONU recommends that this application be Approved with conditions.